

Message Text

UNCLASSIFIED

PAGE 01 OECD P 06789 01 OF 02 200812 Z

12

ACTION EUR-25

INFO OCT-01 EA-11 NEA-10 IO-12 ADP-00 SS-14 CCO-00 AID-20

CEA-02 CIAE-00 COME-00 EB-11 FRB-02 INR-09 NSAE-00

RSC-01 OPIC-12 TRSE-00 CIEP-02 LAB-06 SIL-01 SAL-01

OMB-01 PA-03 PRS-01 USIA-12 INRE-00 RSR-01 /158 W

----- 097303

P R 200605 Z MAR 73

FM USMISSION OECD PARIS

TO SECSTATE WASHDC PRIORITY 9088

INFO AMEMBASSY ANKARA

AMEMBASSY ATHENS

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY HELSINKI

AMEMBASSY LISBON

AMEMBASSY LONDON

USMISSION EC BRUSSELS UNN

USMISSION NATO

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY REYKJAVIK

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

AMEMBASSY VIENNA

AMEMBASSY WELLINGTON

USMISSION GENEVA

USMISSION USUN NEW YORK

AMEMBASSY PARIS UNN

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 OECD P 06789 01 OF 02 200812 Z

UNCLAS SECTION 1 OF 2 OECD PARIS 06789

ECOTO 09

E. O. 11652: N/ A

TAGS: OVIP (WILLIAM J. CASEY), EGEN, OECD

SUBJECT: OECD EXECUTIVE COMMITTEE NEW STYLE (XCNS): STATEMENT
BY UNDERSECRETARY CASEY ON INVESTMENT, MARCH 19

1. FOLLOWING IS TEXT OF PREPARED STATEMENT DELIVERED BY UNDER-
SECRETARY WILLIAM J. CASEY ON ISSUES PERTAINING TO INTERNATIONAL
INVESTMENT AND MULTINATIONAL ENTERPRISES AT AFTERNOON SESSION
XCNS MARCH 19. BEGIN TEXT.

MR. CHAIRMAN:

WE BELIEVE THAT THIS IS A PARTICULARLY OPPORTUNE MOMENT FOR
THE COMMITTEE TO PLACE THE SUBJECT OF INTERNATIONAL INVESTMENT
UNDER INTENSE STUDY. AS WE LOOK TOWARD THE FORMULATION OF NEW
MONETARY AND TRADE UNDERSTANDINGS, WE MUST BE INCREASINGLY ALERT
LEST NATIONAL POLICIES AFFECTING INVESTMENT BECOME THE AREA IN
WHICH CONFLICTS AMONG NATIONAL PRACTICES AND OBJECTIVES WILL
BECOME CONCENTRATED.

AS TRADE BARRIERS ARE REDUCED, GOVERNMENTS MAY BE INCREASINGLY
TEMPTED TO USE INVESTMENT POLICY TO INFLUENCE TRADE FLOWS IN
AN ARTIFICIAL WAY. THIS CAN BE DONE BY SUBSIDIZING OR OTHERWISE
ENCOURAGING INVESTMENT IN SPECIFIC INDUSTRIES OVER OTHERS. THE
USE OF BOTH TRADE AND INVESTMENT POLICIES CAN DISTORT RELATIVE
PRICES AND DETRACT FROM THE EFFICIENT ALLOCATION OF WORLD
RESOURCES.

IN MY INTRODUCTORY REMARKS, I MENTIONED THE PRIME ROLE WHICH WE
BELIEVE AN EXAMINATION OF INTERNATIONAL INVESTMENT SHOULD PLAY IN
THE CONTRIBUTION THAT THIS COMMITTEE AND THIS ORGANIZATION CAN
MAKE TO THE BUILDING OF NEW ECONOMIC SYSTEM. THE SECRETARY-
GENERAL HAS TAKEN A WIDE AND WISE VIEW OF THE ISSUES AND HE
HAS SHOWN US HOW INVESTMENT INTER- RELATES WITH TRADE AND OTHER
ECONOMIC ACTIVITIES AND WITH NATIONAL OBJECTIVES OF BOTH AN
ECONOMIC AND NON- ECONOMIC NATURE. I BELIEVE THAT WE CAN ALL
AGREE THAT THE SECRETARY- GENERAL' S PAPER PROVIDES A USEFUL
FRAMEWORK ON WHICH THIS COMMITTEE CAN DRAW TO HELP GUIDE ITS
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 OECD P 06789 01 OF 02 200812 Z

WORK ON INVESTMENT.

AT PRESENT THERE EXISTS A WIDE RANGE OF NATIONAL POLICIES AND PRACTICES WHICH MAY DISTORT THE PATTERN AND LOCATION OF INTERNATIONAL INVESTMENTS - RESTRICTION, INCENTIVES, DISINCENTIVES, AND OTHER POLICIES, WHICH AS STIMULANTS AND IMPEDIMENTS HAVE A SUBSTANTIAL IMPACT ON THE APPLICATION OF CAPITAL, TECHNOLOGY AND MANAGERIAL TALENT. THEY CAN INTERFERE WITH THE MOST EFFICIENT INTERNATIONAL ALLOCATION OF CAPITAL AND OTHER RESOURCES. THEY MAY LEAD TO THE DISTORTION OF THE PATTERN OF INTERNATIONAL TRADE. THEY MAY ALSO HINDER THE OPERATION OF FORCES AND POLICIES DIRECTED TOWARDS NECESSARY BALANCE OF PAYMENTS ADJUSTMENT. WE WOULD URGE THAT THE EXECUTIVE COMMITTEE UNDERTAKE A SERIOUS AND ENERGETIC EFFORT TO EXAMINE THE TECHNIQUE AND IMPLICATION OF CONTROLS OVER INVESTMENT AND STIMULANTS AND IMPEDIMENTS TO INVESTMENT AND THEIR IMPLICATION. WE WOULD HOPE THAT SUCH AN EXERCISE WOULD ENABLE OUR COUNTRIES TO REACH NEW UNDERSTANDINGS FOR FACILITATING INTERNATIONAL COOPERATION IN THIS FIELD.

IT IS ADVISABLE FOR US TO SET ASIDE, FOR THE TIME BEING, THE BROAD MACRO- ECONOMIC QUESTIONS OF THE STRUCTURAL ROLE OF THE CAPITAL BALANCE IN THE ADJUSTMENT PROCESS AND IN NATIONAL BALANCE- OF- PAYMENTS OBJECTIVES. THIS SUBJECT, WHICH IS ESSENTIALLY THAT COVERED BY PART II OF THE SECRETARIAT' S DOCUMENT (PROBLEMS CONNECTED WITH THE GLOBAL REGULATION OF CAPITAL FLOWS) IS ALREADY RECEIVING CLOSE ATTENTION IN WORKING PARTY 3 OF THE ECONOMIC POLICY COMMITTEE AND IN THE COMMITTEE OF 20 ON INTERNATIONAL MONETARY REFORM.

ACCORDINGLY, I WOULD SUGGEST THAT THE EXECUTIVE COMMITTEE CONCENTRATE ON THE ISSUES AND QUESTIONS POSED BY LONG- TERM DIRECT AND PORTFOLIO INVESTMENT (PART III OF THE SECRETARIAT' S DOCUMENT) AND BY THE OPERATION OF FOREIGN- CONTROLLED ENTERPRISES (PART IV OF THE SECRETARIAT' S DOCUMENT). IN THE COURSE OF THIS EXAMINATION, WE SHOULD OF COURSE ALSO TAKE ACCOUNT OF THE OPERATIONS OF THE MULTINATIONAL ENTERPRISES. THESE ENTERPRISES CERTAINLY LOOM PARTICULARLY LARGE ON THE INVESTMENT SCENE, BUT THEY ARE LOGICALLY AN INTEGRAL PART OF THE BROADER ISSUE OF DIRECT INVESTMENT.

OUR TASK IS TO TAKE THE MEASURE OF THE PROBLEM. THIS COMMITTEE SHOULD HAVE PREPARED FOR IT AN IDENTIFICATION OF THOSE PRACTICES
UNCLASSIFIED

UNCLASSIFIED

PAGE 04 OECD P 06789 01 OF 02 200812 Z

AND DEVELOPMENTS IN THE INTERNATIONAL INVESTMENT FIELD THAT MAY GIVE RISE TO ACTUAL OR POTENTIAL ECONOMIC DISTORTION, AND WHICH SEEM TO BE SUBSTANTIAL ENOUGH NATURE, AND IN THE EXTENT OF THEIR EFFECTS ON THE INTERESTS OF OTHER COUNTRIES, TO SUGGEST THAT THEY MAY BE CANDIDATES FOR AN IMPROVED INTERNATIONAL SURVEILLANCE

PROCESS. WE BELIEVE THAT PARTICULAR STRESS SHOULD BE GIVEN
TO PRACTICES WHICH DISTORT THE DIRECTION AND STRUCTURE OF
INTERNATIONAL TRADE. TH
E E E E E E E

ADP000
UNCLASSIFIED

PAGE 01 OECD P 06789 02 OF 02 200822 Z

12
ACTION EUR-25

INFO OCT-01 EA-11 NEA-10 IO-12 ADP-00 SS-14 CCO-00 AID-20

CEA-02 CIAE-00 COME-00 EB-11 FRB-02 INR-09 NSAE-00

RSC-01 OPIC-12 TRSE-00 CIEP-02 LAB-06 SIL-01 SAL-01

OMB-01 INRE-00 PA-03 PRS-01 USIA-12 RSR-01 /158 W
----- 097378

P R 200605 Z MAR 73
FM USMISSION OECD PARIS
TO SECSTATE WASHDC PRIORITY 9089
INFO AMEMBASSY ANKARA
AMEMBASSY ATHENS
AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY CANBERRA
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY HELSINKI
AMEMBASSY LISBON
AMEMBASSY LONDON
USMISSION EC BRUSSELS UNN
USMISSION NATO
AMEMBASSY LUXEMBOURG
AMEMBASSY MADRID
AMEMBASSY OSLO
AMEMBASSY OTTAWA
AMEMBASSY REYKJAVIK
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMEMBASSY TOKYO
AMEMBASSY VIENNA
AMEMBASSY WELLINGTON
USMISSION GENEVA
USMISSION USUN NEW YORK
AMEMBASSY PARIS UNN

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 OECD P 06789 02 OF 02 200822 Z

UNCLAS SECTION 2 OF 2 OECD PARIS 06789

ECOTO 09

E. O. 11652: N/ A

TAGS: OVIP (WILLIAM J. CASEY), EGEN, OECD

SUBJECT: OECD EXECUTIVE COMMITTEE NEW STYLE (XCNS): STATEMENT
BY UNDERSECRETARY CASEY ON INVESTMENT, MARCH 19

EITHER BY FOREIGN OR DOMESTIC CAPITAL-- WHICH HAS A SUBSTANTIAL ECONOMIC EFFECT ON OTHER COUNTRIES. SUCH A SUBSTANTIAL EFFECT COULD ARISE IF THE PRODUCTION THAT IS INDUCED BY THE SPECIAL INCENTIVES IS IMPORT- SUBSTITUTING OR EXPORT- DIRECTED ON A LARGE ENOUGH SCALE TO UNDERMINE INTERNATIONAL COMPETITION TO A SIGNIFICANT DEGREE.

(2) CHANGES IN TAX POLICY MAY HAVE IMPORTANT INFLUENCES ON THE DIRECTION OF INVESTMENT AND THE RELATIVE PROFITABILITY OF DOMESTIC AND FOREIGN INVESTMENT. A LARGE TAX REDUCTION ON NEW INVESTMENT MAY BE A PERFECTLY NATURAL DOMESTIC ACTION TO STIMULATE THE ECONOMY WHEN THE BUSINESS CYCLE IS DOWN. HOWEVER, IF SUCH A MEASURE IS TAKEN BY A COUNTRY IN BALANCE OF PAYMENTS SURPLUS AND LEADS TO LARGE CAPITAL INFLOWS AND PERHAPS TO A NEW IMPETUS TO EXPORT INDUSTRIES, IT BECOMES OF INTEREST TO THE INTERNATIONAL COMMUNITY.

(3) THE DEGREE OF OPENNESS OF DOMESTIC FINANCIAL MARKETS TO FOREIGN CAPITAL MAY BECOME OF INCREASING IMPORTANCE AS OUR ECONOMIES BECOME EVER MORE CLOSELY INTEGRATED. A GROWING ECONOMY WHICH REQUIRES AND IS ABLE TO ATTRACT CAPITAL FROM ABROAD MAY HAVE SEVERE RESTRICTIONS ON INFLOWS OF PORTFOLIO CAPITAL INTO ITS STOCK MARKET, WITH THE RESULT THAT FOREIGN CAPITAL IS CHANNELLED MAINLY INTO DIRECT INVESTMENT. THIS IN TURN MAY LEAD TO PRESSURE FOR RESTRICTIONS ON DIRECT INVESTMENT. IN THIS SITUATION IT WOULD SEEM USEFUL TO HAVE A MECHANISM TO ENCOURAGE THE ALTERNATIVE OF LIBERALIZING PORTFOLIO FLOWS. OBVIOUSLY, SPECIAL CIRCUMSTANCES MUST ALWAYS BE RECOGNIZED, SUCH AS THE DESIRE OF CERTAIN SMALL COUNTRIES TO PLACE LIMITS ON TAKE-OVERS THROUGH PORTFOLIO PURCHASES, SO AS TO PRESERVE THE IDENTITY OF GIVEN COMPANIES WITH NATIONAL OWNERSHIP.

ADDITIONALLY THE SAME IDENTIFICATION AND POSSIBLE IMPACT OF
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 OECD P 06789 02 OF 02 200822 Z

SPECIFIC POLICIES AND ACTIONS SHOULD BE MADE FOR THE FOREIGN CONTROLLED ENTERPRISES. GENERAL ACTIONS AND OBJECTIVES OF THESE CORPORATE ENTITIES ARE REFERENCED IN PARAGRAPHS 70 TO 73 OF THE SECRETARY- GENERAL' S ANALYSIS AND WE NEED TO KNOW MORE ABOUT HOW THEY WORK AND THE IMPACT THEY HAVE ON THE FLOW OF CAPITAL AND TRADE.

AFTER PROGRESS IS MADE IN PREPARING A TENTATIVE CLASSIFICATION, THE XCNS MAY PROCEED TO EXAMINE AREAS IN WHICH EXISTING OECD UNDERSTANDINGS AND PROCEDURES FOR REVIEWING POLICIES AFFECTING INTERNATIONAL INVESTMENT MIGHT BE IMPROVED. THE FOCUS HERE WOULD BE ON POLICIES THAT ARE NOT NOW COVERED BY OUR CAPITAL MOVEMENTS CODE AS WELL AS ON PROCEDURAL AND REVIEW MECHANISMS, INCLUDING THOSE UNDER THE CODE.

AS THE SECRETARIAT' S DOCUMENT INDICATES, USEFUL CRITERIA IN MAKING SUCH AN EXAMINATION INCLUDE (A) IMPROVING MARKET COMPETITION, (B) MAXIMIZING THE NEUTRALITY OF GOVERNMENTAL ACTIONS OVER THOSE MARKET PROCESSES WHICH HAVE AN IMPORTANT EFFECT ON INTERNATIONAL INTERCHANGE, (C) THE PRINCIPLE OF NATIONAL TREATMENT FOR FOREIGN CAPITAL, AND (D) THE PRINCIPLE OF NON- DISCRIMINATION AMONG FOREIGN OWNERS OF CAPITAL, WHENEVER THERE ARE LEGITIMATE DEVIATIONS FROM NATIONAL TREATMENT. WE NEED TO EVALUATE CONCRETELY THE APPLICATION OF THESE CRITERIA TO SPECIFIC INVESTMENT CONTROLS, INCENTIVES, AND PRACTICES.

TO DO THIS, MR. CHAIRMAN, WE NEED MORE SOLID FACTS. WE NEED TO IDENTIFY AND UNDERSTAND THE VARIOUS INVESTMENT INCENTIVES, RESTRICTIONS, CONTROLS, AND STIMULANTS WHICH ARE IN USE. WE NEED TO EVALUATE THEIR PURPOSE AND IMPACT. WE NEED IDEAS ON THE KIND OF CRITERIA, SURVEILLANCE OR CONSULTATION WHICH MAY BE APPROPRIATE IN MONITORING OR CONTROLLING ANY POTENTIAL HARMFUL IMPACTS WE MAY FIND THAT THEY MAY HAVE. WE NEED A COMPLETE CATALOGING OF TECHNIQUES, TOGETHER WITH THEIR ADVANTAGES AND DISADVANTAGES. THIS KIND OF CONCRETE INFORMATION IS NEEDED TO PROVIDE AN ADEQUATE BASIS FOR CONSIDERATION OF THE PROBLEM BY THIS COMMITTEE, OF WHAT NEEDS TO BE DONE, WHETHER IT BE CODES OF CONDUCT, SURVEILLANCE, CONSULTATION ARRANGEMENTS OR WHATEVER. THAT COMPLETES OUR VIEWS ON THE SUBSTANCE OF WHAT NEEDS TO BE DONE.

CASEY

UNCLASSIFIED

*** Current Handling Restrictions *** n/a

*** Current Classification *** UNCLASSIFIED

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 20 MAR 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973OECDP06789
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: OECD PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730333/aaaaibdc.tel
Line Count: 323
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: kellerpr
Review Comment: n/a
Review Content Flags: ANOMALY
Review Date: 29 OCT 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <29-Oct-2001 by cunninfx>; APPROVED <10-Jan-2002 by kellerpr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> srp 971216
Subject: OECD EXECUTIVE COMMITTEE NEW STYLE (XCNS): STATEMENT BY UNDERSECRETARY CASEY ON INVESTMENT, MARCH 19
TAGS: EGEN, OVIP, OECD, (WILLIAM J. CASEY)
To: EUR
SECSTATE WASHDC INFO ANKARA
ATHENS
BERN
MULTIPLE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

